



President's Report

Tom Kilgore

President & Chief Executive Officer

March 30, 2007



President's Report Overview

Second Quarter

- Hard spots**
- Highlights**
- Performance**
- Challenges and opportunities**



Second Quarter FY 2007 Hard Spots

Financial

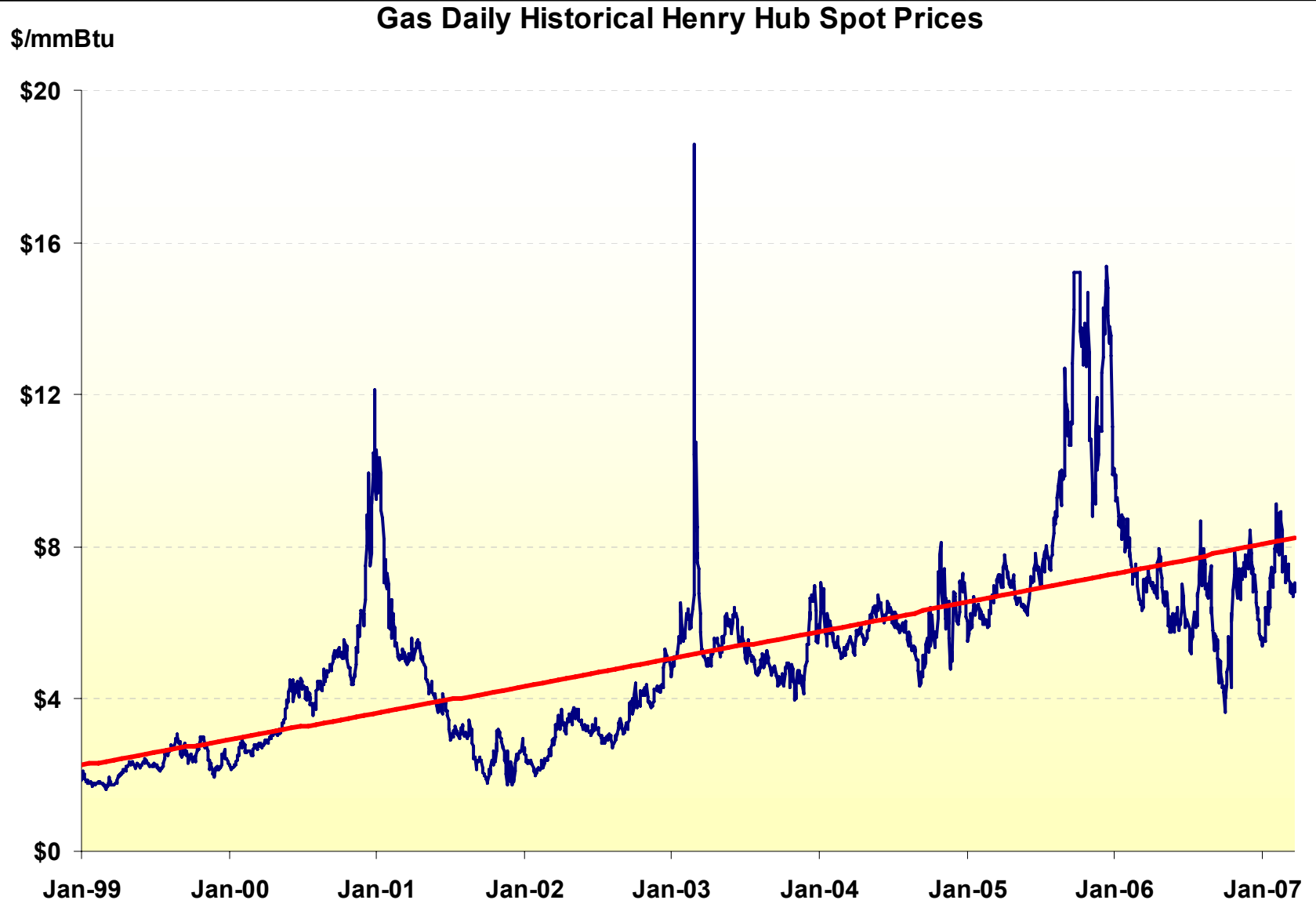
- Mild and dry weather conditions
- Sales and operating revenue well below normal
- Driest 3-month period on record
- Net income expected \$53.3M below budget

Operations

- Hydro generation 25% below normal
- Forced outages higher than expected
- Fuel price volatility continues

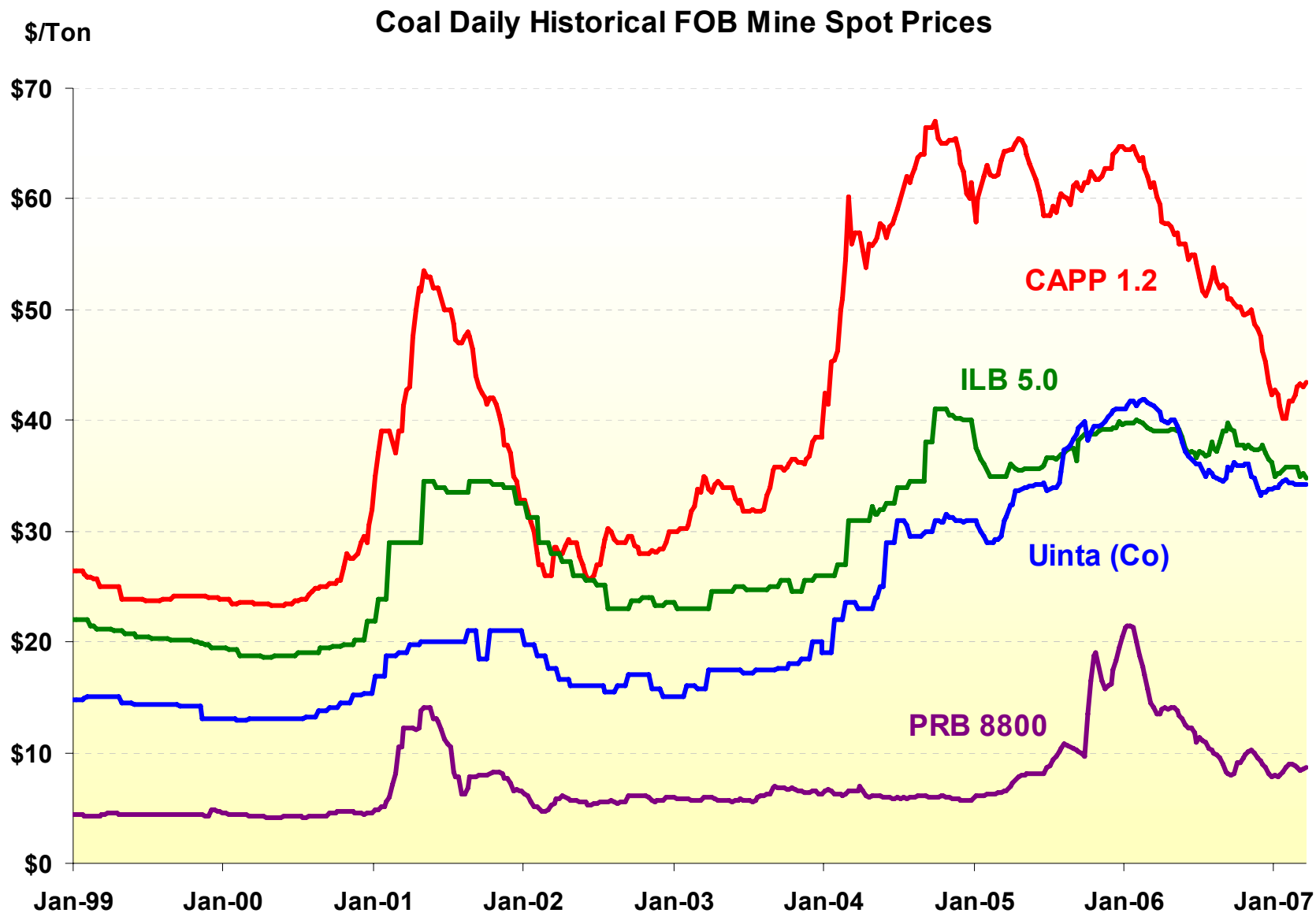


Gas Spot Price History





Coal Spot Price History





Second Quarter FY 2007 Highlights

People

- Bull Run achieves 1 million safe workhours

Customers

- Toyota selects Wellspring Megasite for \$1.3B plant

Financial

- Interest expense favorable by \$56M
- Improving the balance sheet
- Initiated Sustainable Improvement Program

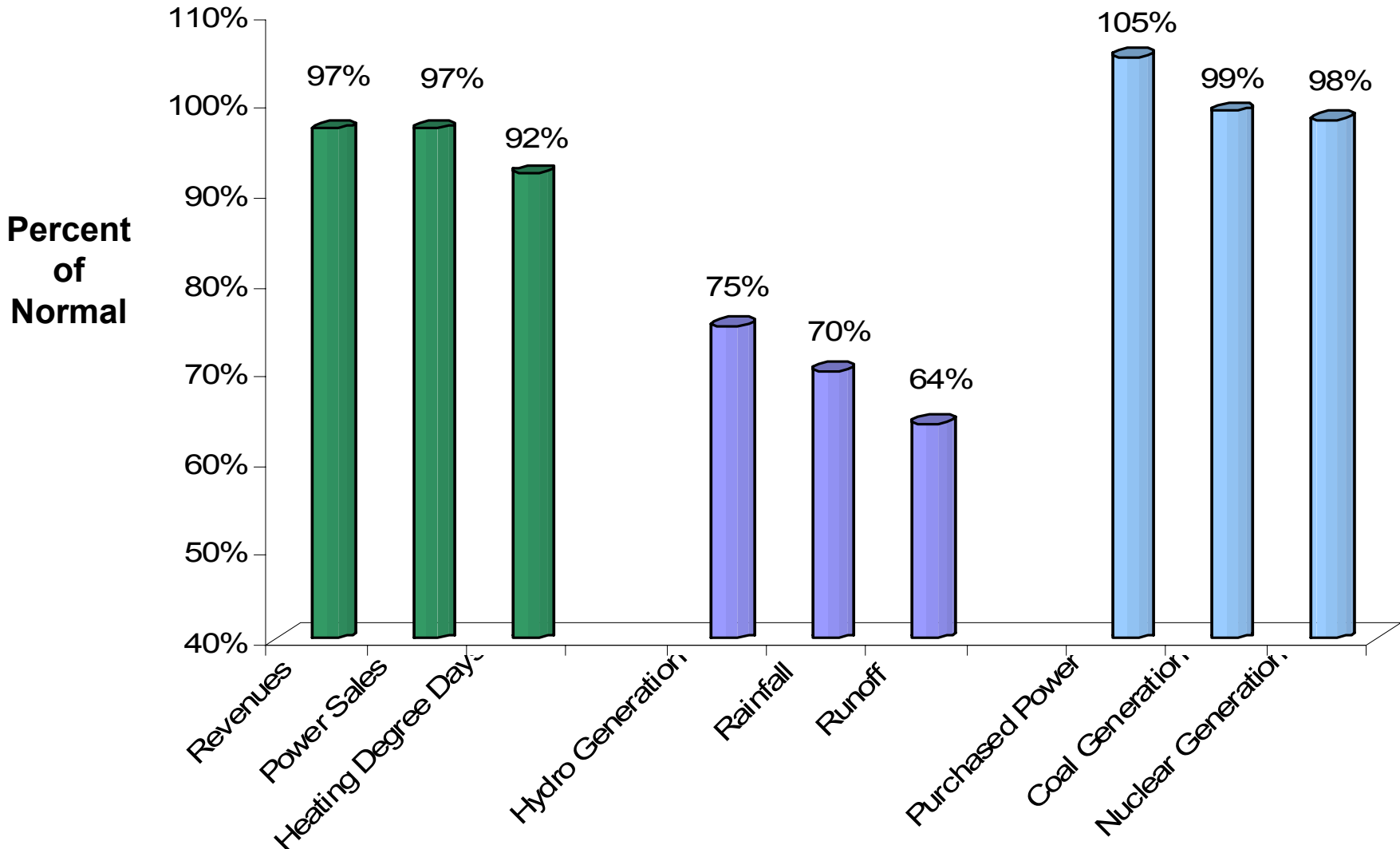
Operations

- Met new winter peak of 30,320 MW on January 31
- Browns Ferry Unit 1 is 99.3% complete
- Shawnee Unit 6 set national record of 1,093 days



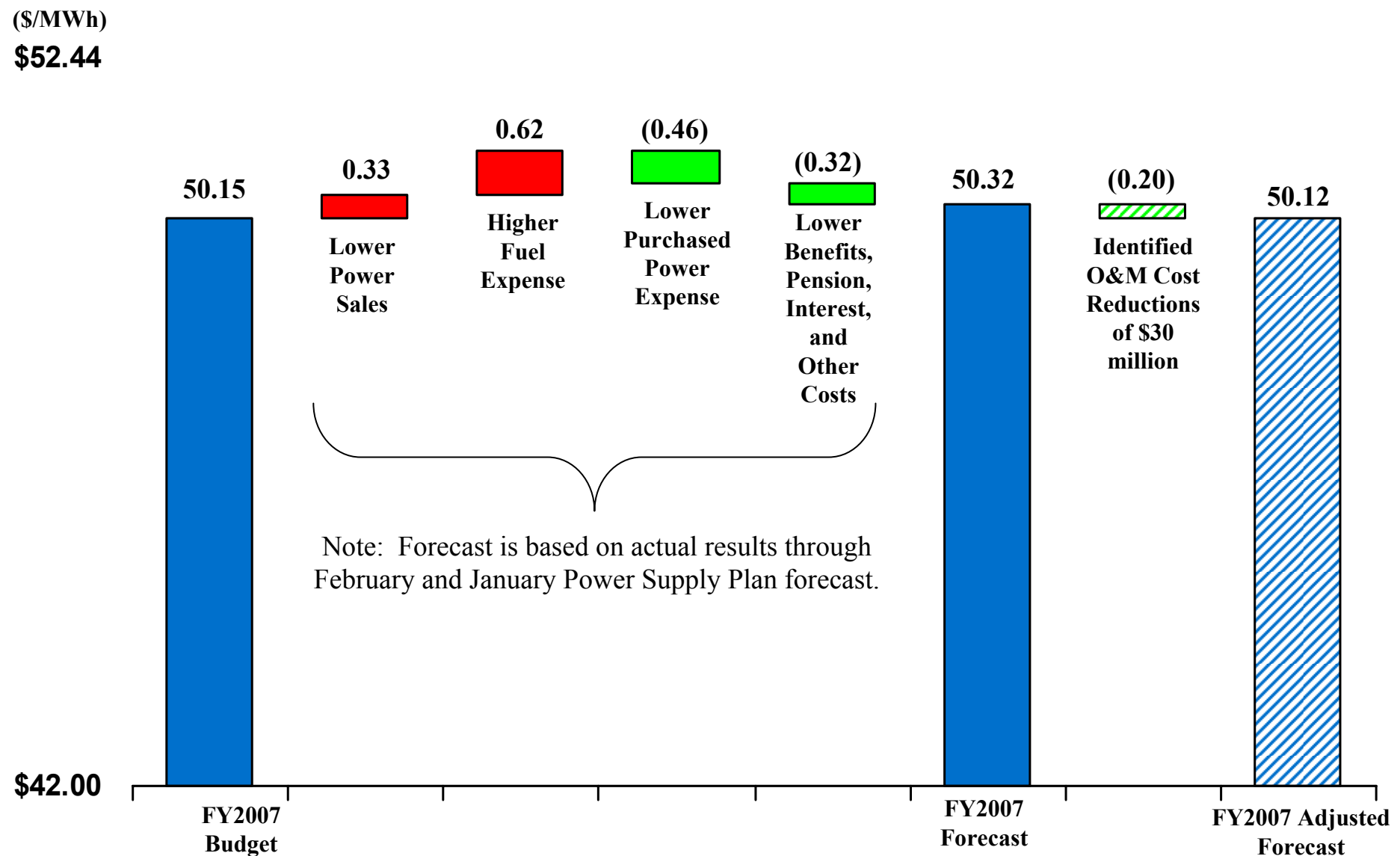
FY 2007 Weather Impacts

Estimates as of March 23, 2007





Delivered Cost of Power Forecast





Challenges and Opportunities

People

- **Safety in all activities**
- **Retirement/attrition rate**

Customers

- **Strategic plan**
- **Joint ownership generation options**
- **Pricing signals that better reflect demand**

Financial

- **Fuel expenses**
- **Predicted revenue shortfall**
- **Sustainable performance improvement**

Operational

- **Generation capacity requirements**
- **Browns Ferry Unit 2 Re-fueling**
- **Browns Ferry Unit 1 restart**

TVA